

How many jobs might be created as a result of the fertilizer project?

IWD utilizes the IMPLAN software program that applies different multipliers based on company type. IMPLAN worked with us to determine the effect some of our projects have on employment. Fertilizer companies have a very high multiplier effect so they have a large indirect impact on employment in the state.

As an example, the fertilizer project is expected to directly create 165 jobs in Iowa. Using the multiplier effect, however, IMPLAN predicts that the plant will indirectly create 739 jobs. So for each job Iowa Fertilizer creates, about 4.5 jobs are actually created in the state's economy.

In addition to the 165 permanent jobs that the project will create, the company estimates another 1,500-2,000 construction-related jobs will also be realized. We have not done an IMPLAN estimate on these jobs.

How will this award(s) impact your tax credit spending under the \$120 million cap for FY 13 and beyond?

IEDA made an allocation for the current fiscal year as follows:

\$95 million for HQJ and EZ

\$10 million for Angel and Innovation credits

\$10 million for housing credits

\$5 million for brownfields and grayfields credits

Some of the allocated amounts are required by statute. For example, IEDA is required to allocate \$8 million to the innovation fund credits, but last year none were used. The Brownfield/Grayfield programs, on the other hand, have more demand than the \$5 million allocation allows. If IEDA had authority to reallocate the unused Innovation credits, we could devote more to Brownfield/Grayfield and still keep enough capacity in the job creation programs.

As far as how much is being "spent," the \$120M cap simply can't be budgeted in the same way as an appropriation. For one thing, the cap restricts the amount our board can "award." Historically though, approximately 20% of our awards are declined but must still be counted against the cap. Additionally, we very often award more than the business actually ends up claiming when they file their returns (there are many reasons for this). Finally, when the business does claim these credits, they are able to claim them on a five year amortized basis with seven year carry forwards. Meaning, the fiscal impact of any given award is spread out over many tax and fiscal years. It would be very helpful if we could essentially combine our awards and contracts data with the Dep. of Revenue's aggregate claim data and produce one report that shows a true "tax cost" figure for any given year's worth of awards, and it is our intention to work with them to do that.

How did Lee County decide to give property tax abatement for 20 years? Was your department involved with giving them advice about this? If so, what advice did you provide?

The Lee County Supervisor's Resolution is attached. As you can see, the board agreed to a 20-year property tax exemption but replaced that tax revenue with a payment in lieu of taxes (PILOT) schedule. In addition, the company will be required to pay all infrastructure costs associated with the project, and the land is not exempted from property taxes. All of this is contingent on the company meeting both the capital investment and job creation commitments, otherwise there are claw backs. The supervisors insisted that this be part of their agreement mirroring the state's.

In addition, although the company asked for a refund of the gas replacement tax and an extension of the property tax exemption beyond the 20 years, the county did not agree to those requests. We did not play a direct role in negotiating the county deal, though we were in constant contact with them. It is our position to never push the local partners to go beyond their comfort level or beyond what they feel is a win/win for the local taxpayers. This way we stand united with our community partners.

What information can you share about the Midwest Disaster Bonds and how much that might be worth to the company?

OCI has applied for up to \$1.2B in Midwest disaster area bond financing. Those bonds are federally tax exempt but NOT state tax exempt. For more information, go to:
http://www.iowafinanceauthority.gov/en/economic_development/midwestern_disaster_area_bonds/

As far as how much they are "worth" to the project, the answer is, that depends. These are conduit bonds, that is, they are corporate debt issued by the business and consequently must be repaid by the business. The advantage of these bonds to the business is that they are a more attractive investment for bond investors than a non-tax exempt bond.

The Iowa Finance Authority administers this program and explains it like this: The Midwestern Disaster Area (MDA) bonds allow private companies to borrow at tax-exempt rates. Generally, that means they save 1.5 to 2% on their borrowing costs. But there are so many variables that we don't try to put that into an actual number. It depends on the term of the bonds (short-term vs. long-term), the structure (variable interest rate vs. fixed interest rate), the credit quality of the borrower, what kind of security is pledged to repaying the bonds, etc. Also, interest rates change every day – so it depends on when they issue the bonds.

In the simplest terms, if you were to borrow \$1 billion for 20 years at 5% interest you would pay about \$605 million in interest. If the interest rate were 7%, you would pay about \$888 million in interest. But the structure will likely be much more complicated than that – so the company will almost certainly save more or less than that hypothetical example.

The bonds are purchased by anyone from insurance companies, pension funds, investment funds, to private individuals. The interest earned on the bonds is exempt from federal taxes (not Iowa state taxes). The amount the federal government will forego in income will depend on the tax liability of the bond holder as well as their tax rate. That's not something the state can calculate.

These bonds were created after the floods of 2008. They were modeled after bonds created after 9/11 (Liberty Zone bonds) and after Hurricane Katrina (Gulf Opportunity bonds). They expire at the end of the calendar year meaning if the bonds aren't issued by then, the capacity will go unused.

Can you shed light on who our competition was for this plant and what was offered?

Our main competition for this deal was a site on the Illinois River in the unincorporated areas of Peoria County, Illinois. We understand the site was served by good rail infrastructure and that the Illinois River supports barge traffic. In other words, it was a viable option for the company from an infrastructure standpoint and, from a supply chain and market standpoint, central Illinois is much the same as Iowa.

Here is a story from the Peoria Journal Star on the state of Illinois' efforts to land the project:
<http://www.pjstar.com/news/x1472858578/Officials-trying-to-lure-1-6-billion-fertilizer-plant-to-Peoria-County>

We don't know the exact terms of the negotiations between Illinois officials and the company. However, the Illinois Senate unanimously passed legislation providing additional incentives specifically for the project, and our offer was crafted in response to that legislation. The bill introduced by the Illinois Senator was brought up on the final day of the session and had bipartisan support. News accounts at the time also referred to the desire of lawmakers to call a special session to take final action on the bill.

A copy of the legislation can be found here:
<http://www.ilga.gov/legislation/97/SB/PDF/09700SB0184lv.pdf>

Illinois, like Iowa, has a state agency that is empowered to offer tax credits to businesses locating, expanding, or retaining jobs in the state. It looks like they allow an annual tax credit to businesses that sign a contract with the economic development agency in Illinois and that the agency can provide up to 10 years worth of such credits under the contract.

A recent project was undertaken for Motorola Mobility, awarding the company \$100 million in tax incentives to keep its headquarters in Illinois. In addition to the EDGE tax credits, estimated at more than \$10m per year over the next 10 years, the company will receive Employer Training Investment Program job training funds and a \$3 million Large Business Development Grant to assist Motorola with capital expenditure.

In general, the amount of the annual credit appears to be capped at the amount of "incremental income tax" that the state would collect from the project. This incremental income tax equals the amount of income tax withholding collected from the project's created jobs. The legislation, however, exempts from the normal cap a taxpayer that makes a capital investment of at least \$1 billion before December 31, 2012. For such projects, the legislation sets a new annual cap at 1% of the capital investment of the project. So, for a \$1.4B project, a 1% cap equals \$14M in annual credit which equals a total of \$140M in credits over a ten year contract period. Naturally, if their capital investment amount changes, so would the credit. The article mentions the project being \$1.6B.

Will there be a signed agreement?

At this time, we do not have a signed agreement with the fertilizer company. We have provided them a "comfort letter" stating our intent to provide a total of \$100M in investment tax credits (ITC), spread out over a total of four fiscal years.

Here's how it breaks down:

- * The board approved \$24M in ITC earlier this year that we counted against the FY 11-12 cap.
- * The board approved \$26M in ITC on Sept. 5, as an amendment to the earlier award, that will be counted against the current FY cap ('12-'13). We will now begin contract negotiations with a total benefit set at the amounts awarded to date (\$50M).
- * We expect the fertilizer company to request a contract amendment next year to amend their total incentives up by another \$25M, which would count against next year's cap ('13-'14) if their request is approved by the board.
- * We also expect another request for \$25M in the fiscal year after that (FY '14-'15).

While \$100M is certainly a large amount of incentives, the HQJ program allows eligible businesses to claim up to 10% of the capital investment in ITC. For a \$1.4 billion dollar project, that means potential eligibility of \$140M in ITC. Additionally, the Governor was clear with the company during his discussions with them and in writing that if corporate income taxes are reduced in Iowa, all or a portion of the additional incentives would not take effect. We have done our best in this case to both win this project for Iowa and Lee County and, yet stay within the statutory cap set by the legislature.